

INVESTMENT LICENSES AND PERMITS

General Fund Revenue Estimate

Revenue Description

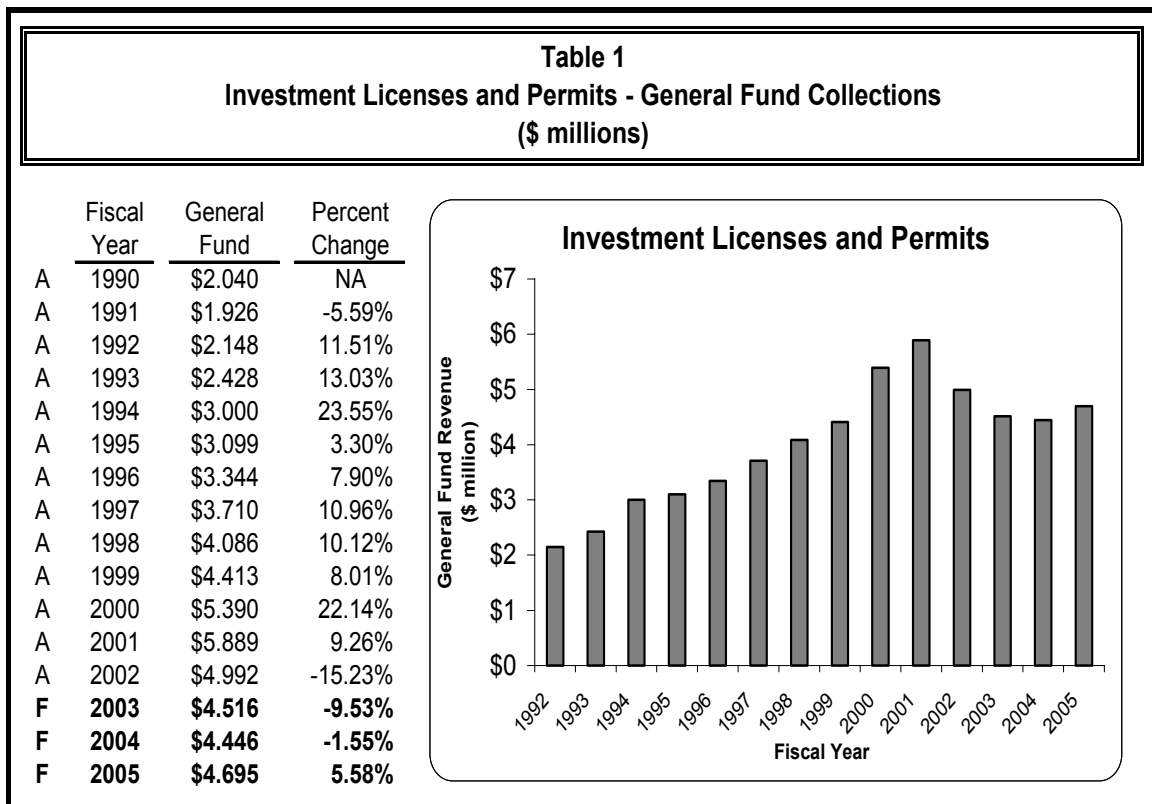
Persons who plan to sell securities in Montana must register with the State Auditor. The fee to register as a broker-dealer or investment advisor is \$200 a year. The fee for salespersons and representatives working for a broker-dealer or investment advisor is \$50.

Newly issued securities that are not regulated at the federal level, traded on a regulated or self-regulating exchange, or otherwise exempt from state regulation must be registered with the State Auditor's office. The first year they are offered, the registration fee is \$200 plus 0.1% of the value over \$100,000, up to a maximum fee of \$1,000. In succeeding years, the registration may be renewed for a fee of 0.1% of the value of securities to be offered that year with a minimum fee of \$200 and a maximum of \$1,000.

These fees are set in Section 30-10-209, MCA.

Historical and Projected Revenues

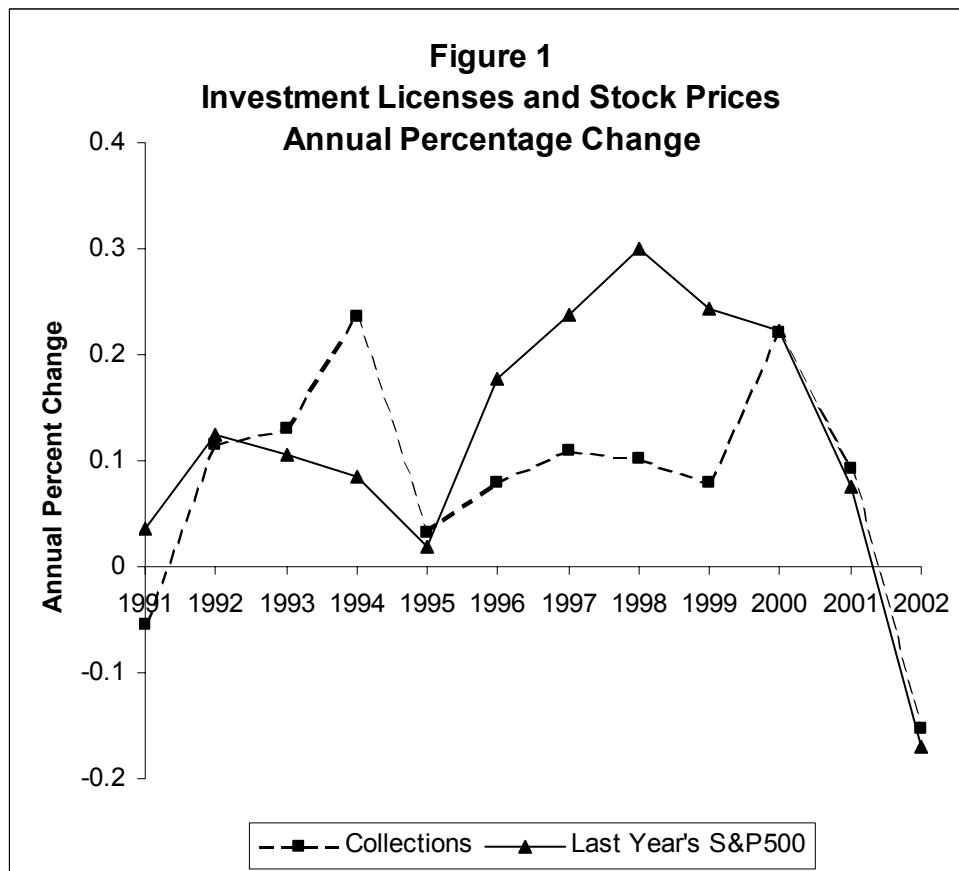
Table 1 shows actual collections for Investment Licenses and Permits for fiscal years 1990 through 2002 and projected collections through fiscal 2005.



Forecast Methodology and Projection Calculation

The basic fee structure of securities licenses and permits has not changed during the period shown in Table 1. Revenue growth has resulted from increases in the number of securities licenses and the value of state-regulated securities issued in Montana.

Growth in securities licenses and permits has followed growth in the value of securities. In particular, there is a close association between the growth in value of stocks, as measured by the annual percentage change in the Standard and Poor's 500 index of stock prices (S&P 500), and the annual percentage growth in investment licenses and permits. This is shown in Figure 1.



The dashed line shows the annual percentage change in investment licenses and permits for fiscal years 1991 through 2002. The solid line shows the previous calendar year's annual percentage change in the S&P 500. Since 1990, stock prices have gone through two cycles, where growth sped up and then slowed down. Securities licenses and permits have followed the same general pattern.

Another influence on the growth of securities licenses and permits was the introduction of securities sales over the Internet. Out-of-state brokers who want to sell to Montana customers over the Internet must register with the State Auditor the

same as in-state brokers who sell in person. Internet sales first became significant in fiscal 2000. Out-of-state brokers registering to sell over the Internet account for the large increase in the growth rate of revenue that year.

In 2000, the increase in stock prices slowed, and in 2001, stock prices fell. In response the growth of securities licenses and permits slowed in fiscal 2001, and revenue decreased in fiscal 2002.

A regression model was estimated relating the growth rate of securities licenses and permits to the previous calendar year's growth rate of the S&P 500 and to the emergence of Internet sales in fiscal 2000. It found that, on average, the growth rate of securities licenses and permits was 1.4 percentage points less than 49.9% of the previous calendar year's growth rate of the S&P 500. It also found that Internet sales accounted for a 12.4 percentage point one-time increase in the growth rate of securities licenses and permits in fiscal 2000. These two factors account for 86% of the variation in the growth of securities licenses and permits over the period from fiscal 1995 through fiscal 2002 .

This regression model was used to predict future collections based on Global Insight's forecasts of the S&P 500. Table 2 shows the resulting forecast.

Table 2 Investment Licenses and Permits Annual Growth Rates and Total Collections			
<u>Fiscal Year</u>	<u>% Growth Last Year's S&P 500</u>	<u>% Growth Collections</u>	<u>Collections (\$ million)</u>
1995	1.98%	3.30%	\$3.099
1996	17.66%	7.90%	\$3.344
1997	23.85%	10.96%	\$3.710
1998	30.09%	10.12%	\$4.086
1999	24.25%	8.01%	\$4.413
2000	22.30%	22.14%	\$5.390
2001	7.59%	9.26%	\$5.889
2002	-16.99%	-15.23%	\$4.992
2003	-16.30%	-9.53%	\$4.516
2004	-0.30%	-1.55%	\$4.446
2005	14.00%	5.58%	\$4.695

The second column shows actual growth rates of the S&P 500 for calendar years 1994 through 2001 and forecasts through calendar 2004. Each is shown in the row for the following fiscal year. The third column shows the actual growth rate of securities licenses and permits through fiscal 2002. It shows projections through fiscal 2005 calculated from the growth rates of the S&P 500 in the second column using the formula:

$$\% \text{ Growth Collections} = .499 \times \% \text{ Growth S\&P 500} - 1.4\%.$$

The fourth column shows actual collections through fiscal 2002 and projected collections through fiscal 2005. For each fiscal year, projected collections are calculated by multiplying the previous fiscal year's collections by the growth rate in the third column and adding the result to the previous fiscal year's collections.

The S&P 500 has continued to fall in calendar 2002 and is projected to average lower in calendar 2003 than in calendar 2002. This causes a continued decline in projected revenue through fiscal 2004. The S&P 500 is projected to increase by 14% in 2004. This causes projected revenue to grow in fiscal year 2005.

Data Sources

General fund revenue from investment licenses and permits is from the state accounting system. Projected values of the S&P 500 are from Global Insight's October 2002 forecast.